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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 006581

SIPDIS

STATE FOR NEA/LEA

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TAGS: [ETRD](#) [PREL](#) [EFIN](#) [IZ](#) [JO](#)

SUBJECT: JORDAN'S EXPORTS TO IRAQ ARE STRONG AND GROWING

REF: 03 AMMAN 106

Classified By: Charge D'Affaires David Hale. Reasons 1.5 (B, D)

1. (C) SUMMARY: Bilateral Jordan-Iraq trade is flourishing, even without considering the strong transit trade. Domestic exports to Iraq took off in 2003 in unexpected sectors. Iraqis' pent-up demand for tobacco and alcohol are keeping Jordanian manufacturers and truckers busy. Soaps, animal feed, and electrical machinery are three other growing domestic exports to Iraq from Jordan. With total domestic exports of USD 315.8 million to Iraq in 2003, Jordan is laying down its marker as a major trading partner in the more competitive post-war atmosphere. Iraq is still Jordan's number two export market after the U.S. While Jordanian companies may not claim as large a share of the Iraqi market as before, they are climbing up near their best pre-war domestic export numbers. Re-exports from Jordan to Iraq are also doing well, at USD 111 million in the first five months, but improvements to Aqaba port are needed to make the most of this transit trade. END SUMMARY.

2. (C) We reported earlier (Ref) that Iraq under the Saddam regime of the 1990s would not buy goods from Jordan deemed acceptable under the United Nations sanctions regime; Iraq turned elsewhere for many products. Jordan's Iraq-bound exports were mainly in traditional regional exports, especially vegetable oils and pharmaceuticals. By the mid-1990s, Jordan was reaping the benefits from being the transit point through which the UN's Oil-For-Food (OFF) goods were shipped. (NOTE: These are deemed "re-exports" in Jordanian trade parlance. END NOTE.) A parallel regime also developed, a bilateral trade protocol, which by 1995 provided for barter of Jordanian goods for free or discounted Iraqi oil valued up to USD 250-300 million. In the early years, the Jordanians did not reach that ceiling, averaging only about USD 168 million annually (Ref).

3. (C) The Jordan-Iraq bilateral trade protocol, however, grew into a sizable export market for Jordan, standing at an average of USD 430 million in 2001 and 2002. Many at the time believed this bilateral trade protocol was an attempt by the Saddam regime to influence Jordanians, having provided large contracts to as many as 400 factories employing some 20,000 workers. The war and the fall of Saddam changed the trade arrangements overnight; throughout the summer and fall of 2003, some Iraq-protocol-oriented Jordanian factory owners and the banks that financed them were complaining to Embassy officers that they were not just "hurting" but "crushed" and non-performing loans were an all-too-familiar norm. But after a miserable first three quarters in 2003, Jordan sprang back to achieve USD 315.8 million in domestic exports to Iraq for the year. As a result, Iraq remains Jordan's second-largest market after the U.S., which has jumped to first based mainly on the meteoric rise of Qualifying Industrial Zone (QIZ) garment exports.

Year	JO Exports to Iraq, \$mn	JO Exports to US, \$mn
2000	141.1	63.3
2001	422.2	232.1
2002	439.6	429.2
2003	315.8	660.7

Strong Growth and Greater Variety of Domestic Exports

4. (U) 2004 Jordanian domestic exports to Iraq are likely to total over USD 360 million, if current trends hold. For the first five months of 2004, domestic exports to Iraq came to USD 150.2 million. Given that the month-by-month growth rates are increasing, Jordan this year could well be back to the exports achieved in banner years. The greater variety in composition of domestic products exported to Iraq, first achieved in 2001, seems to be remaining. Where before pharmaceuticals and vegetable oils accounted for over 90 percent of Jordanian domestic exports to Iraq (Ref), in 2003 they accounted for only 18 percent of all such exports. Two big new domestic exports are spirits and tobacco. Dramatically, over 90 percent of the domestic export output by Jordan's five distilleries, and 97 percent of its tobacco exports, were exported to Iraq in 2003. Soaps were another

big domestic export to Iraq, accounting for USD 54.3 million, or 17 percent, of all Jordanian domestic exports to Iraq last year. Electrical machinery exports of USD 18.1 million accounted for six percent of Jordan's exports to Iraq; but this represented about half of all electrical machinery exports nationwide. (Post is emailing to NEA/LEA a table with a break-out of exports to Iraq by major HS codes.)
Re-Exports: The Transit Trade is Thriving, Too

15. (SBU) The transit trade -- what the GOJ calls "re-exports" of goods through Jordan to Iraq -- were reported to total USD 111 million in the first five months of 2004 and will likely reach USD 250 million by the end of the year. (NOTE: This major source of revenue for traders and the transportation industry could grow even faster if bottlenecks at Aqaba port could be solved more quickly by APM, the new management company contracted by the GOJ. However, APM is constrained by the rate at which the GOJ wants to invest in capital improvements at the port.)

16. (C) COMMENT: That Jordan could hold onto the Iraqi market was not a foregone conclusion after the war. Many of the old trade arrangements have fallen by the wayside; factories in Irbid with monopoly deals were closed in mid-2003 for example. But a new breed of Jordanian trader is rising and thriving, providing soaps, electrical machinery and other goods to the Iraqi market. We expect this trading relationship to grow, as Jordan firms up its ties to the Interim Iraqi Government with an eye to a close, long-term relationship with a strategic trade partner, and as the GOJ concentrates on policies and infrastructure projects to facilitate bilateral trade.

17. (U) BAGHDAD MINIMIZE CONSIDERED.
HALE